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BUSINESS REPORT

2016

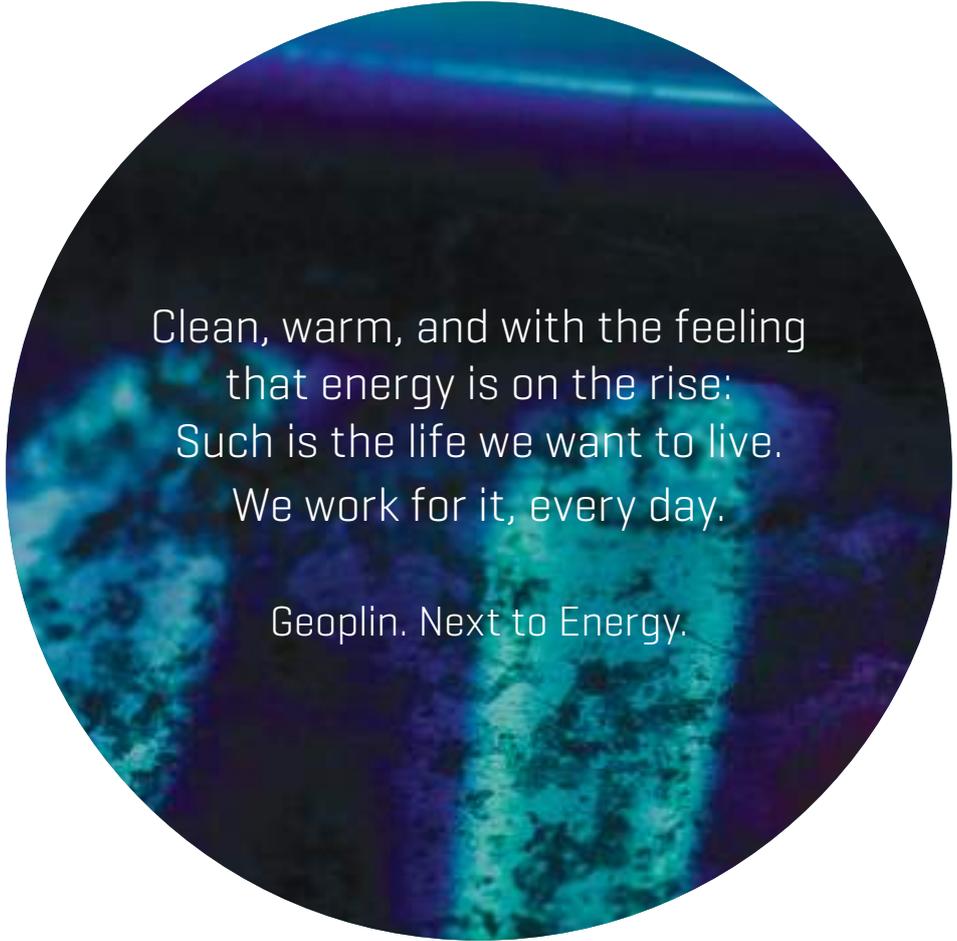
Geoplin. Next to Energy.



BUSINESS REPORT

2016

Geoplin. Next to Energy.



Clean, warm, and with the feeling
that energy is on the rise:
Such is the life we want to live.
We work for it, every day.

Geoplin. Next to Energy.

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Boštjan Napast
President of the Management Board



Alojz Stana, MBA
Member of the Management Board

STATEMENT BY THE MANAGEMENT BOARD

The Geoplin Group ended the year 2016 successfully. In 2016, the Group continued to record a growth in the sales volume of natural gas, in particular owing to higher sales on foreign markets, and increased transmission of natural gas. The Group generated net sales revenue of EUR 354.2 million, a decrease of 14.1% compared to 2015. Lower revenue was largely the result of lower market prices for natural gas at trading hubs. The Group generated a net profit of EUR 12.3 million in 2016.

The parent company's focus in 2016 was on the fulfilment of contractual sales and purchase commitments and the signing of new sales agreements in respect of the period after the expiry of the existing agreements; the implementation and further development of its core business activity and trade in natural gas through the development of the trading infrastructure in support of the optimisation of the purchase & sales portfolio and the entry into new markets; the development and marketing of energy products and energy-related services in the area of efficient energy use, as well as energy consulting and contracting as it relates to renewable energy sources. The natural gas market in Europe and the region is dynamic. 2016 saw great fluctuation in natural gas prices, most noticeable at trading hubs in Europe. Natural gas prices responded to events on the electricity product market, fluctuation in prices for oil and coal, and the strengthening of the dollar compared to the euro. In 2016, Geoplin sold a total of 1,645 million Sm³ of natural gas, 40% of that volume to domestic customers and 60% to foreign customers. Total sales were up 10.7% relative to 2015 on account of a 30.9% increase in sales to foreign customers, resulting in an increase in the proportion of total sales accounted for by foreign sales of 18.2 percentage points. The company ensured reliable supply to customers in 2016 through the diversification of purchase sources.

The system operator Plinovodi ensured the uninterrupted transmission of natural gas throughout the year. Transactions in natural gas concluded at the Virtual Point and the Trading Platform became firmly embedded in the operations of users and the company. The subsidiary provided all interested users transparent and non-discriminatory lease of transmission capacities. Allocation of transmission capacities at border connection points through online auctions became firmly established. In 2016, 4.6% more natural gas went to Slovenian users than in the previous year, and cross-border deliveries of natural gas exceeded those achieved in 2015 by 22.9%. In 2016, the functionalities of the Forecast Drafter were intensively underway in accordance with Regulation 312/2014, which is a complex upgrade of the services of Plinovodi as a transmission system operator. The Energy Agency has approved the 10-year Development Plan of the gas network for the period 2017–2026, which envisages new transmission lines and pipeline facilities based on known requirements for the transmission of natural gas for domestic users and cross-border transmission, and based on forecasted demand according to trends in natural gas consumption and market opportunities.

Employees represent an important factor in the development of our business operations. The Geoplin Group therefore places particular emphasis on the importance of human resource management in order to ensure stimulating work environment and employee development. To that end, employees are included in continuous professional education and training schemes.

Alojz Stana, MBA
Member of the Management Board



Boštjan Napast
President of the Management Board





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PROFILE OF THE COMPANY AND GEOPLIN GROUP

Geoplin Group

The Geoplin Group comprises the parent company Geoplin d. o. o. Ljubljana and the subsidiaries Plinovodi d. o. o., Trgovina i opskrba energentima d. o. o., Geoplin d. o. o. Belgrade and Geocom d. o. o. All subsidiaries are fully owned by the parent company.

As independent legal entities, the Group companies prepare their own reports in accordance with the law. In addition to the parent company, the consolidated financial statements for 2016 also include the subsidiaries Plinovodi d. o. o. and Trgovina i opskrba energentima d. o. o., while the subsidiary Geocom d. o. o. was inactive between 2012 and 2016, and Geoplin d. o. o. Belgrade had not yet started its operations in 2016. The inclusion of the latter two companies in the consolidated financial statements is therefore not relevant to the presentation of the financial position or performance of the Group.

Geoplin parent company

Geoplin d. o. o. Ljubljana was established in 1975 based on the agreement concluded in 1974 with future natural gas customers. The company is engaged in the energy-related activities of supply, trade, representation and intermediation on the natural gas market, which have been the company's core business activities since mid-1978. It also operates on foreign markets, where it supplies natural gas and provides services. It has the appropriate diversified purchase sources and the transmission and storage capacities necessary to ensure a reliable supply of natural gas.

Plinovodi

Plinovodi d. o. o. carries out the energy-related activity of a natural gas transmission network system operator. The tasks of the company are to manage, develop and increase the capacities of the gas transmission network in Slovenia.

Trgovina i opskrba energentima

Trgovina i opskrba energentima d. o. o. holds a valid energy permit to supply natural gas issued by the Croatian Energy Regulatory Agency (HERA), and is responsible for the balance group on the Croatian natural gas market via the local energy market organiser (HROTE). The company began trading natural gas on the Croatian market during the second half of 2014.

Geoplin Belgrade

Geoplin d. o. o. Belgrade was established in April 2015 and received a natural gas trading licence the same year, but has not yet concluded its first transactions due to delays by the competent institutions regarding the announced changes to system rules.

Geocom

Geocom d. o. o. did not perform any trading activities in 2016.

Mission

Geoplin's mission is to provide a competitive and reliable supply of natural gas to customers, while maintaining a sustainable level of profitability.

Through its operations, Geoplin creates:

- benefits for customers through a range of products and services tailored to their needs, and by providing a competitive and reliable supply of natural gas to the corporate sector and households;
- benefits for owners through the continued development of the company and by maintaining sustainable profitability of operations;
- benefits for employees by providing a suitable work environment, and the opportunity for professional development; and
- benefits for the wider environment by ensuring environmentally acceptable supply and by acting responsibly toward the natural and social environment.

The mission of the system operator lies particularly in ensuring energy routes and opportunities through energy supply, commitment to reliable, safe and professional operations, and commitment to technological and social progress.

Vision

Geoplin's vision is:

- to maintain its position as the best known and leading provider of natural gas in Slovenia, and to expand its core business activity to new markets at home and abroad;
- to adapt its range of products and services first and foremost to the needs of the market, and to ensure the competitiveness and reliability of supply;
- to seek new development and growth opportunities in the energy sector in Slovenia and elsewhere by offering other energy products and services.

The vision of the system operator is to expand the gas infrastructure pillar connected with the environment and integrated into the international arena, ensuring efficient energy solutions for all.

Expected development

The development of the energy sector in the European Union (EU) is oriented towards reducing emissions of greenhouse gases and particulates into the environment. The EU sees natural gas as an energy product that, together with renewable energy sources, will ensure an appropriately reliable and sufficient supply, while facilitating the achievement of environmental targets related to the reduction of emissions into the atmosphere.

Irrespective of the circumstances on the domestic market, Geoplin plans to maintain its sales volumes in the future by focusing on intensive sales abroad. As influenced by geopolitical and climatic conditions, the selling prices of natural gas will be formed depending on the supply and demand on international natural gas markets, and in particular on the prices set by trading hubs (CEGH, NCG and TTF). The local presence on the markets of SE Europe is of key importance for strengthening the position and recognisability of the company; therefore, the company intends to strengthen its presence in this region, which is vital to maintaining or increasing sales.

The reliability of supply will be based on sufficient and diversified purchase sources, sufficient transmission and storage capacities and the generation of optimal natural gas inventory levels.

The company's activities will also focus on the continued development and marketing of projects and services related to energy efficiency.

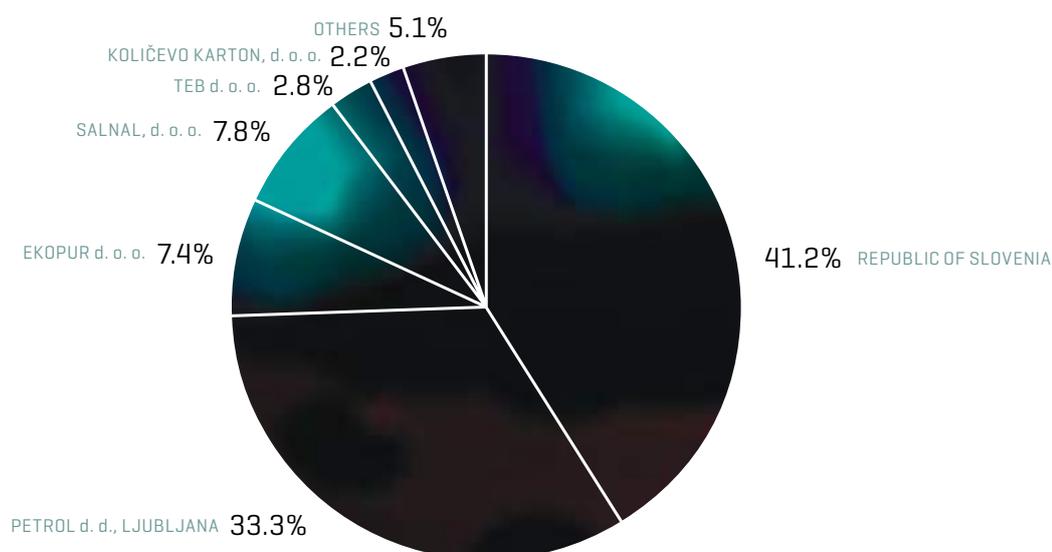
The fundamental task of the subsidiary Plinovodi will be to develop, set up and manage the transmission system, and to implement and expand natural gas transmission by making it possible for all interested users to connect and have access to the transmission system. The company wishes to preserve a high level of reliability and operational safety of the transmission system and to strengthen, with its expansion scheme, the role of the gas transmission system in Slovenia and in connection with neighbouring transmission systems. The strategic guidelines of Plinovodi include an increase in the consumption and transmission of natural gas, sustainable development and growth, setting up and strengthening of international links, connections across the value chain, and the introduction of modern energy solutions.

Governance

Ownership ties

The company Geoplin had 21 shareholders as at 31 December 2016. Based on the resolution passed by the General Meeting on 24 May 2016, the share capital of the company decreased due to the withdrawal of the purchased own share, which resulted in an adjustment of the shares of other shareholders. The change was entered into the Court Register on 6 July 2016. The company's share capital thus amounts to EUR 29,583,473.10.

Ownership structure as at 31 December 2016



The subsidiaries Plinovodi d. o. o., Trgovina i opskrba energentima d. o. o., Geoplin d. o. o. Belgrade and Geocom d. o. o. are fully owned by the company Geoplin d. o. o. Ljubljana.

Work of the General Meeting and corporate governance and supervisory bodies

There were no changes in the corporate governance bodies of the Group and Geoplin in 2016.

The 35th Regular General Meeting of shareholders of the company Geoplin was held on 24 May 2016.

The supervisory body of Geoplin is represented by the Supervisory Board, which has set up an audit committee. In 2016, the Supervisory Board of Geoplin consisted of 6 members: Andrej Ribič [Chairman], Tomaž Berložnik, MBA [Deputy Chairman], Janez Grošelj, MBA and Mojca Soža, MBA as shareholder representatives, as well as Simon Jelovčan and Tanja Pečjak as employee representatives.

The company was led and represented throughout 2016 by a two-member Management Board, consisting of Boštjan Napast, President of the Management Board, and Alojz Stana, MBA, member of the Management Board.

The company Plinovod has a two-member Management Board consisting of Director General and Deputy Director General. In 2016, the company was led and represented by Marjan Eberlinc, Director General, and Sarah Jezernik, Deputy Director General.

The supervisory body of Plinovodi is represented by the Supervisory Board, which had 6 members in 2016. Four members are appointed by the shareholder, and two members are employee representatives.

The corporate governance statement of Geoplin d. o. o. Ljubljana is available on the company's website at www.geoplin.si.





ANALYSIS OF OPERATIONS IN 2016

Business environment

2016 was characterised by considerable fluctuation in prices for natural gas at trading hubs. The lowest prices were recorded in Q2, and the highest in Q4. In 2016, the average natural gas index CEGHIX on the Austrian trading platform CEGH, which follows daily prices, was 14.815 EUR/MWh [CEGH: Central European Gas Hub AG]. It was at its lowest in mid-April, at a mere 12 EUR/MWh, which is also seen as the lowest historical value since the index was created in 2009, while the highest value was seen in Q4, ranging from 14 to 20 EUR/MWh. The economy continued to show favourable trends in commercial activity; despite this development the offer of natural gas still exceeds demand. The market was also characterised by the dynamic movement of Brent oil prices, which were lowest in January 2016, when the daily price was set at just 26 USD/barrel [EIA: Energy Information Administration], after which they continued to rise. The average price of Brent oil according to EIA data in 2016 was 43.74 USD/barrel.

The consumption of natural gas, especially in the general consumption [distribution] segment is also affected by outside temperatures, especially in winter months, which did not, however, deviate significantly in 2016 from the previous year, February proved an exception, exhibiting above-average temperatures, whereas December was comparatively cold. On the domestic natural gas market, competition is becoming stronger, which is reflected in more natural gas-related marketing. Larger suppliers are setting up their own balance groups and new suppliers are entering the market.

The activity of Plinovodi as a system operator is regulated. Despite this, the company is also embedded in a wider business environment and is relatively dependent on external factors on which it has a limited effect. The lease of natural gas transmission capacities depends on weather conditions as well as the general economic climate both at home and abroad.

Performance of the Group and Geoplin

The Geoplin Group continued with stable and successful performance in 2016.

Geoplin maintained its position as the leading provider of natural gas in Slovenia also in 2016. The company's primary focus in 2016 was on the performance and development of its core business activity of marketing and trading of natural gas through the development of the trading infrastructure in order to support the optimisation of the purchase & sales portfolio, and to expand business in and to new markets at home and abroad. It continued to develop and market energy-related services and projects aimed at efficient energy use and renewable energy sources. The company's activities are also focused on the optimisation and development of business operations.

Plinovodi ensured uninterrupted natural gas transmission, satisfying consumer requirements in 2016 as well. A completely open natural gas market in the Republic of Slovenia enables all natural gas consumers to freely select their supplier and independently arrange access to the transmission system, which may be done either directly, based on a transmission agreement concluded with the transmission system operator, or through an authorised natural gas supplier or other holders of balance groups. By expanding the gas pipeline network through the realisation of investments envisaged by the system operator in the Development Plan, recent years have seen a gradual increase in available transmission capacities. This development lent more importance to the marketing of transmission capacities, which owing to the nature of the business of Plinovodi, largely depends on the

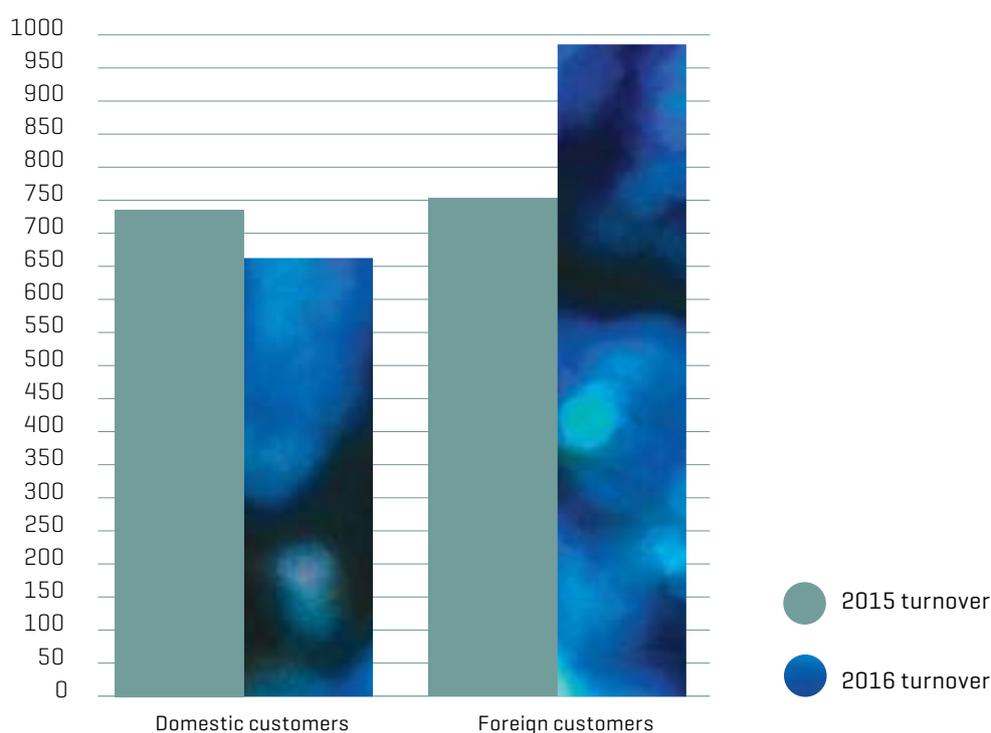
announcement of free capacities for natural gas transmission and valid transmission tariffs. In accordance with the System Operating Instructions for the Natural Gas Transmission System, the Virtual Point for Gas (VTP) facilitates the performance of natural gas transactions and notice board services, and constitutes a trading platform for the operation of the balancing market for balance group holders. VTP is aimed at the exchange of natural gas quantities in the Slovenian transmission system. Since its establishment in October 2015, it has been well incorporated into the performance of the daily activities of the transmission system operator as well as those of system users. Being a transmission system operator, Plinovodi must ensure good, continuous flow-pressure conditions in order to be able to fully implement transmission and in accordance with the agreements entered into, for which the compression stations at Kidričevo and in Ajdovščina are of key significance. For a safe and reliable operation of gas pipelines, facilities and equipment, it is vital to undertake preventive maintenance in order to ensure uninterrupted availability and high operational capacity of the gas pipeline infrastructure.

Marketing and purchase of natural gas

In 2016, Geoplin sold a total of 1,645 million Sm³ of natural gas, 40% of that to domestic customers and 60% to foreign customers. Total sales were up 10.7% relative to 2015 on account of a 30.9% increase in sales to foreign customers, resulting in an increase in the proportion of total sales accounted for by the latter of 18.2 percentage points. Higher sales were the result of increased sales activities on the natural gas markets in Croatia and Austria.

Sales volumes for natural gas

in million Sm³



	Unit	2016	2015	Index Actual 16/Actual 15
Natural gas sales	in million Sm³	1,645.0	1,486.0	110.7
Domestic customers		661.4	734.6	90.0
Foreign customers		983.6	751.4	130.9

Sales of natural gas to domestic customers was down 10% compared to the previous year, especially on account of discontinued production of electricity from natural gas, the switching of customers between suppliers, and higher temperatures in Q1.

During the reporting period, Geoplin supplied its customers with natural gas without disruptions and in line with contractual provisions and customer needs. Balancing services are provided to customers in the scope of Geoplin's balance group with the system operator.

The company ensured a reliable supply of customers based on long- and short-term agreements and purchases on the regulated market (the CEGH trading platform) and on a non-regulated over-the-counter (OTC) market. At all times, the company actively worked to optimise the purchase portfolio.

Activities for entry into the natural gas market in Serbia were resumed, where Geoplin established a subsidiary in 2015 and obtained the relevant licence. The success of entering a new market largely depends on the pace of the opening up of the natural gas market in Serbia. All procedures required for entry into the natural gas market in the Czech Republic have also been finalised.

In 2016, Geoplin carried out activities on the OTC market (bilaterally with contractual partners), as well as on the Vienna CEGH trading platform and ICE ENDEX energy exchange. Via the trading platform, the company traded largely on the spot market with daily products, while the majority of other transactions linked to term products were concluded on the OTC market and the ICE ENDEX energy exchange (financial products) to ensure greater liquidity. Active trading also led to additional optimisation of the existing portfolio and the optimisation of agreements concluded with customers in terms of fixing and defixing of prices. Such a strategy enables Geoplin to protect the customer prices and maintain them at the same level for a longer period of time. In these transactions, cooperation with partners proved to be beneficial, with whom the company has stepped up the signing of EFET contracts in recent years. Membership in the ICE London Exchange also allowed Geoplin to trade in various TTF and NCG index-related products as well as in oil and other raw materials. In Q3 of 2016, the company met all conditions required to commence trading activities in Slovakia.

Energy efficiency projects

Geoplin has recognised the opportunity to develop an important pillar of its business in the field of efficient energy use and energy production from renewable sources, and in high-efficiency co-generation. In 2016, many activities were linked to the development and marketing of those services.

Geoplin continued to develop and market energy-related services, and to optimise internal processes related to their provision and monitoring. As part of the measures aimed at efficient use of energy (EE) and other energy products, most activities in 2016 were devoted to projects related to the refurbishment of internal industrial lighting.

Geoplin's SPTE generation units for the supply of electricity and heating of commercial facilities were operating regularly during the heating seasons (early- and late -2016) in accordance with the requirements. The two solar power plants also operated according to expectations.

Transmission system

In 2016, Plinovodi implemented 504 transmission agreements with system users at all border entry points, and 297 transmission agreements of different maturity for different types of services at exit points in Slovenia. The average lease of transmission capacities at border entry points in 2016 amounted to 83,925 MWh/day. Transmitted quantities of natural gas reflect the needs of users in Slovenia and those of contractual partners involved in cross-border transmission, and affect the utilisation of transmission system capacities. The transmission of natural gas by the system operator in 2016 ran according to plan, without any operational disruptions. The total annual volume of gas transmitted was 13,113 GWh and exceeded the 2015 volume. In the reporting period, as much as 40% of all natural gas was transmitted for users in Slovenia, which exceeded the 2015 figure by 4.6%, owing to temperatures in Q1 and Q4 and due to economic growth. Cross-border transmission in 2016 exceeded that in 2015 by 22.9%, due in particular to an increased demand for natural gas.

By adjusting the quantity of natural gas in the transmission system, the system operator constantly ensures that the transmission system is balanced.

	Unit	2016	2015	Index Actual 16/Actual 15
Leased entry capacities at the border	MWh/day	83,925	95,071	88.3
Leased exit capacities in Slovenia	MWh/day	61,751	61,780	100.0
Transmitted quantities	GWh	23,113	20,132	114.8

Investments

The Geoplin Group made total investments of EUR 7.9 million in 2016, the majority of which comprises investments related to Plinovodi. The investment activity of the system operator, which is largely aimed at the development of transmission gas pipeline systems, surpassed 2015 levels; however, it has not yet reached the level of activity from the period ending year-end 2014. It mostly comprised investments in planning network development and preparations for the implementation of projects from the Development Plan in the years to come. Total investments of Plinovodi in intangible assets and property, plant and equipment amounted to EUR 7.4 million in 2016, and were financed through the company's own sources and TEN-E 2013 [Trans-European Networks - Energy] grants.

	Unit	2016	2015	Index Actual 16/Actual 15
Net sales revenue	in EUR million	354.2	412.1	85.9
Net profit	in EUR million	12.3	12.4	99.4
Assets [balance as at 31 Dec.]	in EUR million	499.7	504.2	99.1
Capital [balance as at 31 Dec.]	in EUR million	314.9	309.1	101.9
Investments	in EUR million	7.9	6.2	126.7
EBIT	in EUR million	17.5	16.4	107.0
EBITDA	in EUR million	35.6	36.7	96.9

Geoplin invested EUR 0.49 million in intangible assets and property, plant and equipment in 2016. The majority of investments were made in energy efficiency [EE] projects, in particular the purchase of new lighting systems in two industrial facilities.

Performance analysis

Financial highlights of the Geoplin Group

The financial results of the Geoplin Group for 2016 reflect the continued stable and successful business operations. The Group generated a net profit of EUR 12.3 million in 2016.

Net sales revenue

The Geoplin Group generated net sales revenue of EUR 354.2 million in 2016, a decrease of 14.1% on the previous year. Lower revenue was largely the result of lower market prices for natural gas at trading hubs.

Costs

Operating costs excluding provisions amounted to EUR 37.2 million in 2016, compared with EUR 36.4 million in 2015. Higher operating costs compared to 2015 were largely the result of higher depreciation costs for the subsidiary Plinovodi.

EBIT/EBITDA

EBIT amounted to EUR 17.5 million and was 7% higher than the previous year, while EBITDA amounted to EUR 35.6 million, down 3% on the previous year.

Assets

The Group had total assets of EUR 499.7 million as at 31 December 2016, a decrease of 0.9% relative to the balance at end-2015. The decrease is the result of a lower balance of intangible assets and property, plant and equipment, mainly due to annual depreciation.

Capital

The Group's total equity as at 31 December 2016 was up 1.8% on end-2015, mainly as the result of the net effect of net profit generated in 2016, profit distribution among shareholders in the same period, and the minor effects of a change of provisions due to valuation at fair value.



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RISK MANAGEMENT IN THE GEOPLIN GROUP

Risks are an inherent part of any business operation. Risk management within the Geoplin Group includes mechanisms for monitoring, identifying and managing risks, which are presented below for key areas. Rapid and intensive changes to the environment in which the Group operates, and other commercial and financial risks can have a significant impact on its operations and business results.

Below, please find an enumeration of key risks by individual business area.

Strategic and regulatory risks

Strategic and regulatory risks derive from the wider external business environment, which is typically beyond the control of Geoplin and to which the company is nevertheless exposed in the course of its operations. The company must respond to changes through appropriate monitoring and adjustment of its operations in order to eliminate or minimise the effects of the external environment on the company's performance and the achievement of its strategic objectives.

The strategic risks of Geoplin largely consist in the geopolitical situation, new purchasing sources and routes across Slovenia and the markets in which it operates, as well as changed conditions on the gas market that may result in excess supply of natural gas in the region or in the congestion of transport routes. The company handles strategic risks with appropriate annual planning. When adjusting to the changes in the business environment, the company introduces good business practices and trains its employees to develop the skills required to function in a changing business environment.

The hardest risks to manage are regulatory risks, which are the result of changes to market rules or legislation and which affect the company's operations. These primarily include changes to European and Slovenian energy regulations, and to national regulations on the markets where Geoplin operates. Such risks are frequently hard to quantify, and it is equally hard to mitigate their effects. Employees thus actively monitor changes to regulations and market rules. In Slovenia, the company is actively included in public debates and is also involved in the development of legislation governing the Slovenian natural gas market. It responds to regulatory changes by adjusting its operations, thus ensuring compliance of its operations with the regulations and rules in force. Because those changes frequently result in an increase in operating costs, the company assesses their impact on operations through close monitoring, and sets aside the funds required to implement such changes.

Commercial risks

Commercial risks are almost entirely interdependent throughout the entire purchase-sales chain. It is therefore important that they be mitigated, for the most part contractually, and properly managed.

The most significant commercial risks to which the company was exposed in 2016 in the sale of natural gas were linked to the recovery of trade receivables due, the conclusion of new agreements with customers for the next period, increasing pressure from customers related to pricing and other sales terms, the appearance of new competitors, general economic activity, deviations of outside temperatures from long-term averages, the increased use of renewable energy sources and measures for efficient energy use.

Financial risks

Financial risks primarily comprise risks associated with changing prices, risks associated with creditworthiness, credit and interest-rate risk, and currency risk.

Measures for identifying, monitoring and mitigating financial risks include the optimisation of operations and measures such as the planning and coordination of cash flow, a prudent investment approach (diversification before profitability), the daily management of trade receivables, verification of customer credit ratings, optimisation of the costs of financial services, the timely settlement of liabilities and hedging against currency risk.

Human resource risks

Due to its small headcount and specific knowledge requirements, Geoplin is also exposed to human resource risks, in particular the loss of key personnel and the lack of specific expertise of new recruits. The demand for personnel with specific knowledge is growing as competition on the natural gas market intensifies. The company has reinforced the staffing of several key areas due to the increased complexity of processes and the expansion of its activities. Professional qualifications of employees are also improving through continuous education and further development of qualifications. The importance of human resource management is also increasing, as this mitigates the risk of losing key personnel.

Systemic and operational risks

The Department of Information and Communications Technology (ICT Department) responds to various IT-related business and technological risks through appropriate activities and procedures. The principal risks identified and appropriately controlled by the ICT Department refer to:

- achieving required safety levels of IT systems;
- achieving required safety levels of IT system availability;
- maintenance of the information infrastructure;
- successful wrapping up of ICT projects.

By constantly monitoring the ICT infrastructure, by carrying out external independent audits of IT security, by maintaining a high level of availability of technologies, and through the principles of project management and security policy as well as by constantly monitoring and overseeing ICT maintenance contracts, such risks were manageable.

Environmental risks

The most important environmental risks are regulatory risk, changes to the European and national energy policy, changes to legislation and executive acts, and their lack of mutual harmonisation.

Operational risk

Being a transmission system operator, Plinovodi manages the risk related to safe and uninterrupted operations through continuous system maintenance and by elaborating scenarios for actions in case of extraordinary events.

Other risks

Risks deriving from possible overhauls, construction or other interventions in the gas transmission system are minimised, as such works are typically planned and coordinated in advance between the customer and the independent operator for periods that will have the least impact on the former.

Compared to the last period under review, the project risk is more prominent, which is the expected consequence of finalised large-scale investments in the construction of the transmission system and preparations by the system operator for new investments.

The compliance risk remains a key risk, including risks connected with conducting operations in accordance with the statutory regulations and rules.

In the area of purchase, Plinovodi faces the risk of mistakes being made in tender dossiers and in public procurement procedures, the risk of changes to estimated purchase prices, the risk of untimely deliveries or defaults on contractual obligations by providers, and the risk of changing prices.

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4



SUSTAINABLE DEVELOPMENT

Due to the nature of its business, the Geoplin Group operates in accordance with the principles of sustainable development, which focus primarily on environmental management and social responsibility. The key emphases are on promoting the use of natural gas as the most ecologically acceptable fossil fuel, which in turn eases the burden on the natural environment.

Geoplin's objective in terms of quality and social responsibility is to respect the interests of all stakeholders with which the company engages in the course of its operations: owners, business partners, employees, the expert public, the media, the environment and local communities. Through prudent operations, a reliable supply of natural gas and a socially-responsible approach, Geoplin creates benefits and contributes to a better wider environment. Activities relating to the quality of operations are aimed at improving business processes and reducing their impact on the environment, taking into account the principles of the company's environmental policy.

Human resources

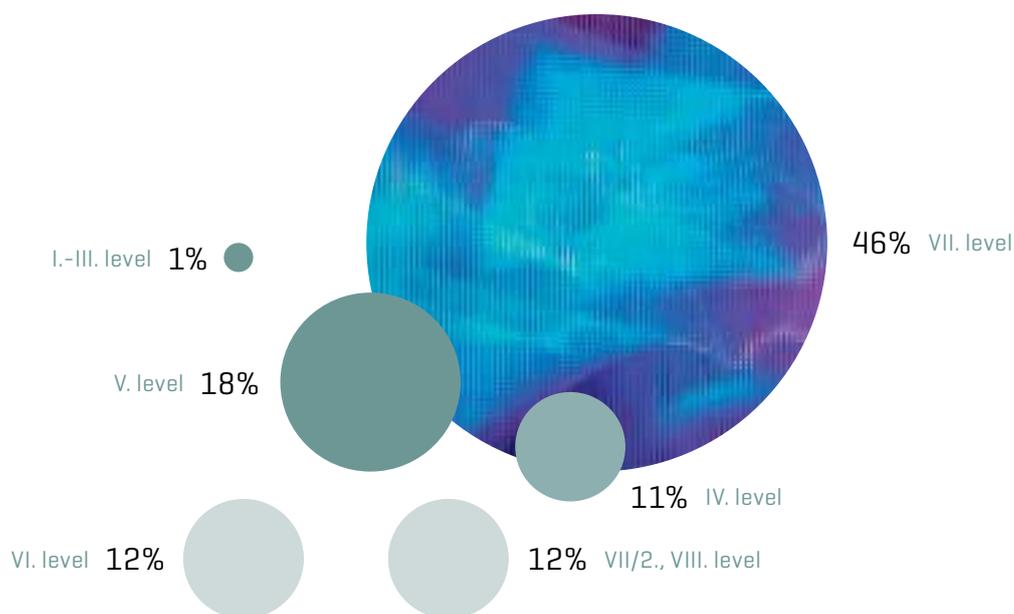
The internal organisational structure of the Geoplin Group is suited to the requirements of the Group's business processes and harmonised with the EU's Third Energy Package, which requires a fully functional segregation of work processes between the parent company and the subsidiary Plinovodi owing to the latter's certification as an independent system operator. Appropriate adjustments were made as far back as 2011.

The number of personnel employed in the Geoplin Group as at 31 December 2016 was 194, which is 5 less than at the end of 2015. The average number of employees was 192.2. The Group employs highly-qualified professional personnel with specific knowledge as dictated by the activities in which the Group is engaged. Each year, the Group trains personnel with the aim of improving skills and proficiency. The educational profile of the Group is very high, with university graduates prevailing. At the end of 2016, as many as 70% of the employees of the Group held a higher education degree. The gender structure of employees in the Group reflects the technical nature of the business, since as many as 77% are male and 23% are female.

The nature of the business calls for a high level of security and safety at work, and represents an important ongoing priority of the Group – which is especially true for the Plinovodi company.

Geoplin applies the diversity policy, meaning that it creates a system of rules ensuring equal opportunities based on the following premises: the enforcement of legislation [satisfying statutory regulations in the field of human rights protection and labour legislation], respect for ethical grounds, fairness and justice, and the pursuit of diversity objectives, such as investing in employees and equal opportunities, prevention of discrimination, adjustment to demographic changes, and the maximisation of potential and promotion of diversity, all of which contribute to both the growth of individuals and the organisation as a whole.

Educational profile-structure of Geoplin Group employees



Data for 2016

Level of education	31 December 2016	31 December 2015
I.-III. level	1%	1%
IV. level	11%	11%
V. level	18%	18%
VI. level	12%	13%
VII. level	46%	46%
VII/2., VIII. level	12%	11%

Environmental actions

The Geoplin Group is aware of the importance of environmental issues and concerns. The two largest companies in the Group – Geoplin and Plinovodi – particularly highlight the advantages of natural gas as an environmentally friendly energy source.

Geoplin is aware that environmental management is an ongoing process that must be continually adapted to new legislative requirements and changes in the environment. The company's environmental policy and objectives are primarily aimed at reducing environmental impact through the reduction of emissions into the atmosphere, waste management, the efficient use of water and other targeted environmental activities. In the scope of corporate communications in 2016, the company once again emphasised the benefits of natural gas as an environmentally friendly energy source.

Natural gas has a number of environmental advantages over other fossil fuels:

- it contains fewer impurities, such as sulphur, nitrogen and dust particles. Methane, as the main element in natural gas, has the lowest carbon content of all the hydrocarbons. During combustion, natural gas produces 25% lower CO₂ emissions than does heating oil, and close to 45% lower emissions than does coal;
- natural gas employs environmentally friendly transmission via underground pipelines; and
- natural gas production does not require any complex refining process.

The EU is committed to reducing carbon dioxide emissions by 20% by 2020. The wider use of natural gas as a “green energy product” could contribute significantly to achieving certain environmental objectives.

Through the expansion of its energy-related activities, Geoplin supports energy efficiency and the use of renewable energy sources, and is aware of the advantages of renewable energy for both consumers and the environment. We are aware of the importance of sustainable energy, and promote measures aimed at ensuring energy savings and increased energy efficiency, in particular with end-users of natural gas. The efficient use of energy is far better and more quickly achieved using modern technologies. In accordance with the law, Geoplin also prepares a programme aimed at promoting savings among end-users. In order to increase the efficient use of energy by its end-users, it particularly supports projects with the following measures:

- the exchange of boilers burning residual oil, fuel oil and gas with new, high-efficiency natural gas boilers;
- programmes for carrying out energy audits; and
- the installation of equipment for operational monitoring and consumer energy management.

Due to the nature of its business, the system operator focuses on monitoring noise at regulating stations, where no deviations from legal requirements were identified in 2016, and on monitoring the use of water and energy. Plinovodi managed to reduce the consumption of natural gas for gas heating in 2016 compared to the year before. In the future, the company will continue to make technological improvements and construct units for heat and power co-generation at facilities that are part of the natural gas transmission system.

Socially beneficial activities

The Geoplin Group also fosters concern for the social and cultural environment. Financially, it supports humanitarian and sports associations, cultural events and various other activities.

In 2016, Geoplin served as a sponsor and donor in accordance with the guidelines set out in the Communications Plan adopted for 2016. These activities were aimed at strengthening the positive image of Geoplin as a Slovenian and regional company. Geoplin supports sports, culture, science, healthcare and humanitarian activities. The company also spreads awareness about the use and importance of natural gas among children, and continued with its popular Plinko communications project. The aim of the project is to promote awareness of natural gas as the cleanest fossil fuel, which in turn contributes to increased consumption of natural gas. By expanding its social responsibility work to upbringing and education, Geoplin strengthens its positive image as a successful company in the eyes of the general public, and builds important relationships with its customers.

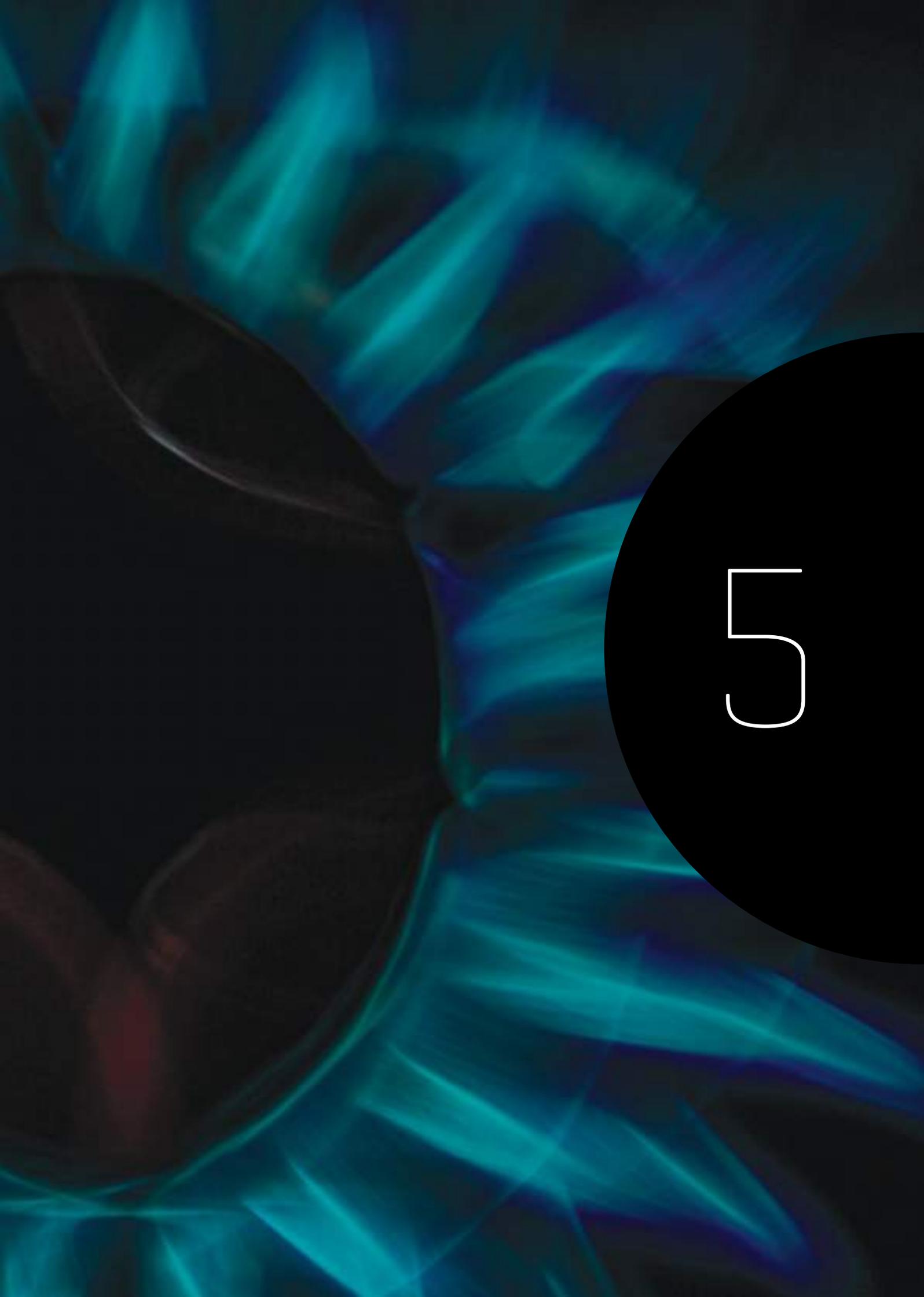
The system operator still pays special attention to any pipe laying processes; however, in terms of utilisation of space, safety, energy efficiency and environmental impact, the transmission of gas through underground channels is the most optimal form of transmission of any energy source. As part of the preparation of national spatial plans based on previous archaeological field research, the system operator takes care to ensure that any deposit areas are properly and adequately treated.



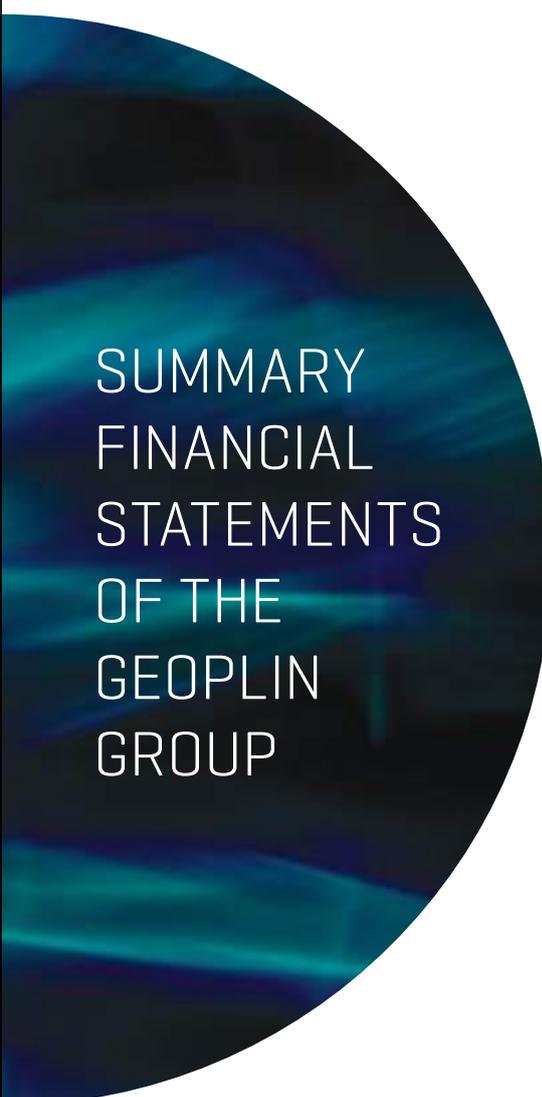
Key Geoplin sponsorship activities in culture
Ljubljana Festival
Slovene National Theatre Maribor



Key Geoplin sponsorship activities in sport
Ski Association of Slovenia



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SUMMARY FINANCIAL STATEMENTS OF THE GEOPLIN GROUP

The consolidated financial statements of the Geoplin Group have been prepared in accordance with International Financial Reporting Standards [IFRS] adopted by the European Union, along with interpretations adopted by the International Financial Reporting Interpretations Committee and by the European Union as well, and in accordance with the provisions of the Slovenian Companies Act [ZGD-1].

Two fundamental accounting assumptions have been taken into account, namely the accrual principle and the going concern.

The consolidated financial statements of the Geoplin Group for 2016 and comparative data for 2015 have been prepared in accordance with IFRS for the first time.

The external audit of consolidated financial statements and the annual report of the Geoplin Group for the fiscal year 2016 was conducted by the audit firm Deloitte revizija d. o. o.

High-quality accounting information serves as the foundation for responsible decision-making. Such information is ensured by taking due account of accounting standards and appropriate accounting policies, and by regularly supervising the accounting process in audit procedures each year.

Balance sheet of the Geoplin Group

	Balance in EUR as at 31 December 2016	Balance in EUR as at 31 December 2015	Balance in EUR as at 1 January 2015
ASSETS	499,740,336	504,173,448	483,544,484
A LONG-TERM ASSETS	341,274,547	345,356,822	359,348,404
I. INTANGIBLE ASSETS	16,046,770	4,780,965	4,871,362
Property rights	1,533,575	1,946,305	1,835,833
Other intangible assets	7,151,016	661,002	800,741
Intangible assets being acquired	7,362,179	2,173,658	2,234,788
II. PROPERTY, PLANT AND EQUIPMENT	301,768,160	325,125,442	334,820,123
Land	7,710,883	7,402,034	7,463,877
Building title and easement rights	17,527,114	18,140,557	18,918,363
Buildings	223,143,787	229,954,220	236,996,583
Production and other equipment	48,370,968	52,989,283	56,726,332
Ongoing investments	5,015,408	16,639,347	14,714,968
III. INVESTMENTS IN LAND AND BUILDINGS	0	0	0
IV. LONG-TERM INVESTMENTS	19,710,046	11,996,825	16,455,903
V. DEFERRED TAX ASSETS	3,749,570	3,453,590	3,201,016
B CURRENT ASSETS	158,465,789	158,816,626	124,196,080
I. NON-CURRENT ASSETS HELD FOR SALE	0	876,578	0
II. INVENTORIES	11,799,309	12,458,703	20,536,248
Materials	1,126,150	1,156,563	1,198,784
Merchandise	10,673,159	11,302,140	19,337,464
III. SHORT-TERM INVESTMENTS	76,197,911	66,649,762	31,297,171
Deposits held at banks and other financial institutions	61,711,696	52,480,776	30,000,692
Loans granted	14,052,809	10,026,906	0
Other short-term investments	433,407	4,142,080	1,296,479
IV. OPERATING RECEIVABLES	59,912,132	69,564,277	65,277,004
Trade receivables	55,488,339	65,490,717	62,198,210
Other current assets	4,423,792	4,073,560	3,078,794
V. CASH AND CASH EQUIVALENTS	10,556,437	9,267,305	7,085,657

	Balance in EUR as at 31 December 2016	Balance in EUR as at 31 December 2015	Balance in EUR as at 1 January 2015
CAPITAL AND LIABILITIES	499,740,336	504,173,448	483,544,484
A CAPITAL	314,909,408	309,107,004	302,202,936
I. Called-up capital	29,583,473	30,829,620	30,829,620
II. Capital reserves	79,343,777	78,097,630	78,097,630
III. Revenue reserves	172,829,085	172,829,085	172,829,085
IV. Fair value reserves	1,646,448	1,524,244	1,583,011
V. Net profit brought forward	19,210,262	13,457,319	5,282,205
VI. Net profit for the period	12,296,562	12,369,143	13,581,260
VII. Consolidation capital adjustment	-199	-37	125
B LONG-TERM LIABILITIES	137,821,244	151,108,267	148,479,986
I. PROVISIONS	69,743,765	69,915,714	66,033,058
Provisions for severance pay	580,189	545,833	588,907
Provisions for jubilee awards	208,482	193,337	171,648
Other provisions	68,955,094	69,176,544	65,272,503
II. LONG-TERM OPERATING LIABILITIES	194,605	618,371	584,931
III. LONG-TERM FINANCIAL LIABILITIES	67,882,874	80,574,182	81,861,997
C SHORT-TERM LIABILITIES	47,009,684	43,958,179	32,861,562
I. SHORT-TERM FINANCIAL LIABILITIES	1,832,994	2,693,862	2,203,517
Current share of long-term loans	1,832,994	2,693,862	2,203,517
II. SHORT-TERM OPERATING LIABILITIES	45,176,690	41,264,317	30,658,045
Trade payables	31,318,542	28,867,162	21,387,062
Liabilities for corporate income tax	843,433	249,928	481,692
Other short-term operating liabilities	13,014,715	12,147,226	8,789,291

Profit and loss statement of the Geoplin Group

	in EUR 2016	in EUR 2015
1. Sales revenue	354,173,878	412,131,506
2. Cost of merchandise sold	300,375,325	355,213,670
3. GROSS PROFIT OR LOSS	53,798,553	56,917,836
Costs of materials and services	6,451,170	7,016,431
Labour costs	11,676,793	11,097,137
Depreciation	17,241,827	16,686,727
Other costs	12,074,904	14,743,832
4. COSTS OF OPERATIONS	47,444,694	49,544,126
Other revenue	12,020,304	12,685,665
Other expenditure	883,414	3,710,711
5. OPERATING RESULT	11,136,890	8,974,954
Financial revenue	1,734,631	3,198,001
Financial expenditure	4,686,365	4,831,554
6. FINANCIAL RESULT	-2,951,734	-1,633,553
7. EARNINGS BEFORE TAXES	14,539,015	14,715,111
Corporate income tax	2,619,554	2,566,273
Deferred taxes	-377,101	-220,305
8. NET PROFIT FOR THE PERIOD	12,296,562	12,369,143

Business report 2016

Geoplin d. o. o. Ljubljana

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